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TAGS: [PGOV](#) [ECON](#) [EPET](#) [EINV](#) [CH](#) [IZ](#)  
SUBJECT: CHINA/IRAQ: \$3 BILLION OIL SERVICE AGREEMENT

REF: A. A) BEIJING 3342  
[1](#)B. B) BEIJING INTERNAL NOTE 8/25/08  
[1](#)C. C) BAGHDAD 2638

[1](#)1. (SBU) Summary. The Chinese Government has confirmed that a major Chinese state-owned oil company has agreed to a contract to develop an oil field southeast of Baghdad. The exact details of the as-yet-unfinalized agreement are unclear, but appear to involve a fee-for-service arrangement, with no guaranteed share of future production. Some analysts criticized the Chinese for accepting less-profitable terms in order to improve their chance of future access to Iraqi oil fields. Neither Chinese government nor Iraqi embassy contacts would comment on the deal. End Summary.

An "Agreement" in Beijing  
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[1](#)2. (U) At the Ministry of Foreign Affairs (MFA) regularly scheduled press briefing, spokesperson Qin Gang confirmed that the China National Petroleum Company (CNPC) had reached an "agreement" with Iraq's central government to develop the al-Ahdab oil field southeast of Baghdad (see ref A). Western press reported that the deal will be worth US\$3 billion.

[1](#)3. (U) According to press reports, the agreement is a renegotiation of a 1997 production-sharing contract with CNPC. Under the new deal, CNPC reportedly agreed to a fee-for-service arrangement. Iraqi Oil Minister Hussain al-Shahrastani said that under the revised contract the al-Ahdab oil field will produce 110,000 barrels per day and should pump for 20 years. The Chinese company will form a joint venture with Iraqi partner Northern Oil Company to complete the contract.

Details Unconfirmed  
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[1](#)4. (SBU) Details of the actual terms of the agreement are unconfirmed. The Chinese company has not verified Iraqi statements on either the value of the deal or its contents. Some oil industry insiders say that it will include construction of an electricity station by a Chinese firm. CNPC declined to comment, saying that the contract is not yet finalized. The Iraqi Embassy said they have also been instructed not to comment on the deal prior to government approval.

[1](#)5. (SBU) Some oil industry analysts have criticized the Chinese deal, noting that most of the world's major oil firms are holding out for production-sharing arrangements. Likewise, they point out that the oil field in question is located in an area near the Iranian border that could pose security concerns.

¶6. (SBU) A Chinese researcher at the Energy Research Institute said that deal is "not a big thing for China," because of its low-profitability and relatively moderate production volume. China's oil and commodity extraction companies are often willing to accept smaller, less-favorable deals than their Western counterparts in order to guarantee access to raw materials. Industry analysts have told us that throughout Africa China is signing contracts to develop second- and third-rate mines and oil fields. In this case, China apparently has pressed to complete an agreement, accepting slightly less-profitable compensation in order to establish themselves as good partners and open the door to Chinese access to an important source of oil.

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